

Covestro: An 80 year-old start-up

■ By Charmaine N Clarke & Wei He

Unless you know Covestro's story, it's hard to understand why CEO Patrick Thomas describes it as a start-up with 80 years of experience. The fact is that the company has very strong roots; it began as Bayer MaterialScience (BMS), part of the Bayer Group. Covestro was born in September 2015 after Bayer decided to focus entirely on the Life Science

businesses and to float the materials business side of its operations on the stock market as a separate company. An IPO followed a month later and Covestro racked up an impressive €12.1 billion in global sales last year.

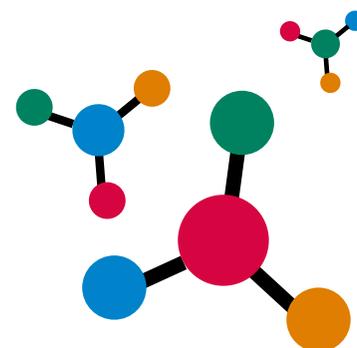
Now no longer under the umbrella of the powerhouse Bayer brand, Covestro is determined to make a name for itself. While it is far from having the brand recognition



that Bayer does, its innovations are all around us – if you know where to look. They can be found in the interiors of our automobiles, on our mobile phones, sports shoes, even the mattress that gives us the perfect night’s sleep. Some of Covestro’s most well-known collaborations include pilot-protecting insulation work on the cabin of Solar Impulse 2, an airplane attempting to fly around the world using only energy from the sun. They also have a track record of working with Adidas,



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providing material (when they went by the name BMS) for the 2014 Brazuca ball. More recently, they partnered with Adidas to develop the Beau Jeu, the official match ball for the European soccer championship. Covestro (and Bayer) also has a strong relationship with CEIBS and already there are several of the school’s alumni on their team (see sidebar). This comes as no surprise as Covestro has made China a huge part of its strategy for long-term success.

Read on for an exclusive interview with Steffan Huber, President of Covestro Greater China, for an insider’s views on what it was like to take a leap of faith and leave the comfort of a 150-year old mega brand to start all over again.

***TheLINK:* What were some of the challenges of launching a separate company and is there anything that, looking back, you would have done differently?**

It wasn’t easy; it was emotional. I personally have 30 years of Bayer history under my belt, and a lot of people on



our team had only ever worked at Bayer. So for some of them, “not being part of Bayer anymore” was like taking their home away. Especially in the company’s home country, Germany, it’s been quite emotional for a lot of people. Not only just for those from Covestro, but also for those remaining at Bayer.

Having said that, it’s also clear that there were a lot of advantages. For

example being able to experience an IPO, and a situation where a complete unit is taken out of a company and becomes a separate entity, would be a highlight in anyone’s career and I was lucky enough to be able to play a role there.

The entire “carve-out” of the businesses took quite a while. By the time the announcement was made in

CEIBS Alumni @ Covestro

According to Steffan Huber, President of Covestro Greater China, the almost one year-old company fully intends to build on the strong relationship it had with CEIBS when it was a part of Bayer. Over the years, both sides have benefited from an exchange of ideas (speaker engagements, membership on the

school’s Corporate Advisory Board), shared talent (internships for MBAs who help address real life challenges at the company while getting much needed work experience) and employment opportunities. “We like CEIBS graduates because they are of high quality,” said Huber. “There has been continuous collaboration under the old Bayer name, and now under the Covestro name, there is going to be continued collaboration.”

Meet two CEIBS alumni who are proudly part of the Covestro team:

From Chemist to Innovator

Roy Lin, who graduated from the CEIBS EMBA programme in 2006, is heading the Material Science Center at Covestro’s innovation hub, the Polymer Research & Development Centre. He joined Bayer MaterialScience (BMS) 15 years ago, as Marketing Manager for polyurethanes products, after BMS

acquired the business from Lyondell, a company he was working for in Singapore. In 2004, he was transferred to Shanghai and has been in the city ever since.

“Before CEIBS I was a trained chemist with strong expertise in technology management and marketing. But I knew if I wanted to move to the next level, I had to gain a holistic overview of business strategy and integrated business operation. So I chose CEIBS in order to strengthen my skills. The decision to do the two-year programme, which would not have been possible without the company’s support, paid off well. At CEIBS I learned how important it is to have an overall and integrated picture of business management, skills I use on the job.

Covestro is all about making the world a brighter place and this is my favourite thing about working for the company. I am most impressed



September 2014, of course there had been a bit of work done already.

We had to make sure that on the first day of independence, everything worked, from accounting to finance to payrolls, everything. So this took a lot of work.

Also, one of the main requirements at the very beginning was that we wanted to have a friendly carve-out

because we would still be neighbours, in Germany, in Shanghai, everywhere. Neighbours should work well together, and they should help each other. And we have achieved that. Overall we made the transition in a very collaborative way and maintained a friendly atmosphere among our colleagues at Bayer and Covestro. We still have regular exchanges and it's still a very friendly environment.

and excited about the emphasis on environmental protection and safety. Covestro puts a great deal of emphasis on sustainability, which in turn benefits people and the planet – and of course generates a profit. This emphasis is demonstrated throughout the products and technologies that we are developing for the market.

I see Covestro as a place to foster your global citizenship. Joining Covestro, where I have benefitted from a multi-national company view, and studying at CEIBS, where I truly learned about China business insight, have been the two great decisions of my life.”

Campus Talk Pays Dividends

An October 2006 campus talk by Bayer executives was enough to let Janet Yang (MBA 2007 graduate) know she wanted to work with the company. Almost a decade later she

still believes she made the right choice. Yang began as a project manager at Bayer's Supply Chain Centre (SCC) and today she is Head of SCC Covestro after the company was carved out from Bayer. She still remembers the gruelling interview process for the job.

“It was a one-day assessment centre (AC) with six observers who were also senior managers from the company. The AC was intensive – it included an individual presentation, group discussion, plus role-play – but I did learn a lot from it, especially the feedback from observers. I was also left with the deep impression that Bayer (and now Covestro) invests a lot (time and effort of senior managers, AC design, funds, etc) on people/talent recruitment. I made up my mind immediately after I walked out of the AC meeting room that I would definitely join the company if given the opportunity.

My CEIBS studies did a lot to



prepare me for the job in terms of how to interact with others and network effectively, as well as structural and big-picture thinking. CEIBS alumni at Bayer/Covestro usually have a regular lunch together, especially when we have a newcomer from CEIBS. When there is a trainee who is a CEIBS graduate being rotated to SCC, I always take good care of that person and help him/her quickly adapt to company culture and values. The best part about working at Covestro is that both the office facilities and our colleagues are very nice. Coming to work here was a good choice.”

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That's an important achievement.

In terms of what we could have done better: If we had a bit more time, I would have done a more bottom-up approach to make our organisation smarter and more efficiency driven. As a player in the materials business, Covestro should be competitive in all aspects, not just in terms of quality, but also in cost and overall set-up.

But overall, I think the entire transition went pretty well.

TheLINK: What is your relationship with Bayer now and how has Covestro been performing since going out on its own?

Our first day of independence was September 1, 2015. Since then, we have been basically running on our own. We are completely a stand-alone legal entity. Of course Bayer is still a major shareholder. But operations are run completely independently from Bayer, managed by a Board of Management, a global leadership team.

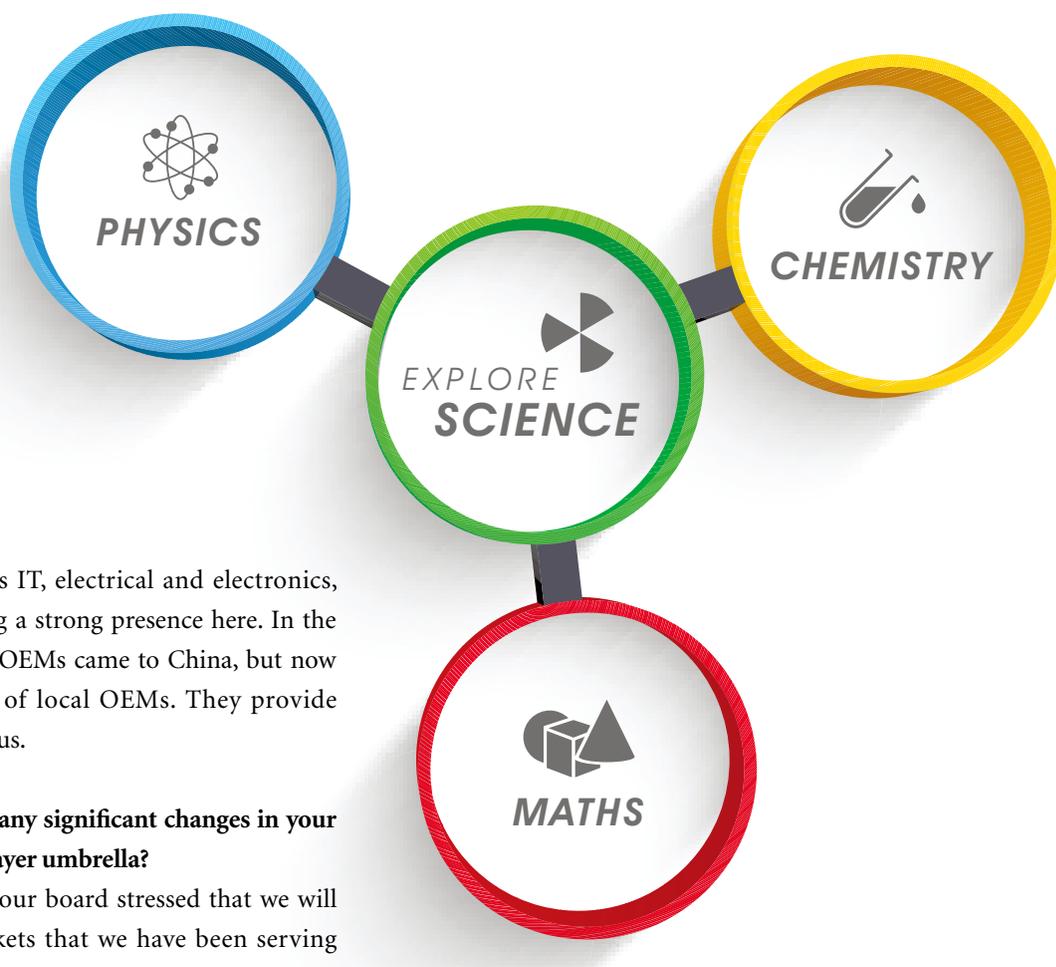
We are off to a great start into our new journey. Covestro's numbers were quite satisfactory in 2015, with global sales of €12.1 billion. We have had our first Annual Shareholders' Meeting, we have done our first official quarter results report and the numbers are quite promising. In the first quarter of 2016, we increased our core volume growth by over 13 percent in China.

TheLINK: How important is the China market for Covestro?

China is a big market for us. We are a German-based company, so you would probably argue that Germany is our home market; but we also call China our home market. Over the last decade we have continuously improved our footprint in China, which – in terms of sales volume – is the second largest country in the overall Covestro organisation. Also, our biggest location across the world is the Covestro Integrated Site in the south of Shanghai.

Over the years, BMS – and now Covestro – have invested heavily in our asset footprint, and also our innovation capabilities in China. We are here in China to stay. We even moved some global functions to China, for example our Polycarbonates business unit is now headquartered in Shanghai because of China's importance to the global polycarbonate market.

And of course, China is very fast moving. A lot of



our core industries, such as IT, electrical and electronics, automotive, are maintaining a strong presence here. In the past, a lot of multinational OEMs came to China, but now we see a growing number of local OEMs. They provide additional opportunities for us.

***TheLINK:* Have there been any significant changes in your strategy since you left the Bayer umbrella?**

When we went public, our board stressed that we will continue to serve the markets that we have been serving for many, many years. So we are not going to have a shift in strategy; we will continue on the path we have started. But of course we hope that now, being a stand-alone company, we will be able to focus more on the needs that our businesses have. As part of the Bayer conglomerate, we always had to compete with the life science businesses for resources; now we can fully focus on [and funnel resources to] our needs. And of course that comes with the added benefit of faster reaction time, with flexibility to meet market requirements. So I would hope that after we have really settled down as a new company, we will also see the benefits and merits from our independence: being faster and being a bit more flexible.

***TheLINK:* What has it been like, adjusting to being without the strength of the Bayer brand?**

Bayer is a strong global brand, and a positive brand, so it was always easy to enter meetings and meet with stakeholders and present the Bayer-branded name card.

So why did we launch a separate company? It's to allow the material sciences business, which is now Covestro, and the life science business that is still part of the Bayer Group, the freedom to grow.

Standing alone now, while we don't have the Bayer brand, we have a very strong name and a strong logo, and now it's up to us to put some substance behind that. We have a lot of experience; we invented almost all the products we sell,



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so we have a very strong track record in innovation. It's of course now important to put meaning to our values of being “Curious, Courageous, Colorful”.

We also have a new Covestro vision: “We make the world a brighter place”. We accomplish this by doing a lot of innovation in all areas. We will play a significant role in providing solutions to some of the problems that currently exist globally and specifically in China. For example, Covestro is playing a role in providing a solution to the issue of carbon dioxide emissions. We are building our brand around sustainable values, being responsible for the environment, for people, focusing on health and safety. These are strong values that we need to communicate to all our stakeholders; but first of all we have to live up to them ourselves. Over time our goal is to put a strong brand into the market, one that hopefully would be equally strong as the Bayer brand. But Bayer has a history of over 150 years, and Covestro is less than a year old so we know we will need to work a bit on that.

TheLINK: Do you consider your IPO a success and how does having shareholders affect how the company operates?

We had a successful IPO launch on October 6, 2015. The opening price was €26, up from the issue price of €24. Our stock has been basically going up ever since (the price was up nearly 50% percent as of June 8). We have now been listed



on the MDAX, a very important listing for us, the STOXX Europe 600, and recently the MSCI. So these are quite important indices in international stock markets. I think we can say we had a very successful IPO.

We have always had shareholders. In the old days of BMS, our shareholder was Bayer AG. But now there is no more “Bayer” as a buffer in between the market and us. We are independent so we answer directly to our shareholders, and no longer to the Bayer board. We have to also answer directly to our financial investors. Whatever we do will immediately get feedback from the market. If we are doing well in our industries, it will hopefully be positively reflected in our share price. The fact that our share prices have been doing well gives us a certain level of confidence that our investors are happy with our business.

But it also comes with certain responsibility. Our shareholders need a certain degree of predictability and stability from us. We also have a responsibility (not just the board but everyone at Covestro) to make sure that whatever we do, at the end of the day it helps create value. We will continue doing this to build a strong reputation, not only with customers but also with our owners. We want to be an attractive investment for everybody.

TheLINK: What’s next for Covestro?

The long-term goal is to build a strong brand, not only one that will convince investors that we are a worthwhile investment, but we also want to build our brand for our employees. We need to be attractive to the very best talents and a strong brand can help us do this.

We also have a lot of sustainable targets, which helps us to be a sustainable employer. For example we have ambitious targets to reduce our carbon footprint and we also have targets to reduce our overall energy consumption. This is more or less in line with the overall trend of utilising resources in a smarter way.

In the short term, we have to maximise the return of our units. We have invested significantly in production assets, so now we need to capture the growth and maximise the return we can generate out of our units. We also need to position ourselves in the most appropriate way to capture growth in key industries, and that is linked to innovation. We need to be innovative in terms of products, solutions, and business models to find smarter ways to interact with customers and stakeholders.

